Supreme Court, U.S.
FILED
MAY 22 2002

No. 01-1376

In the Supreme Court of the United States

FUJI PHOTO FILM CO., LTD., CROSS-PETITIONER

v.

JAZZ PHOTO CORPORATION, ET AL.

ON CROSS-PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE FEDERAL CROSS-RESPONDENT INTERNATIONAL TRADE COMMISSION

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QUESTION PRESENTED

Whether it is a permissible "repair" of a patented invention to refurbish it once the invention has completed its function and been voluntarily destroyed.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-25a) is reported at 264 F.3d 1094. The general exclusion order (Pet. App. 160a-163a) and the cease-and-desist orders (Pet. App. 164a-170a, 171a-177a) of the International Trade Commission are unpublished. The final initial and recommended determinations of the administrative law judge (partially reproduced at Pet. App. 53a-159a and Cross-Pet. App. 1a-180a) are unreported.[1]

[1] The petition for a writ of certiorari (No. 01-1158) and the cross-petition (No. 01-1376) were filed under seal with redacted

JURISDICTION

The judgment of the court of appeals was entered on August 21, 2001. A petition for rehearing was denied on November 9, 2001. The petition for a writ of certiorari was filed on February 6, 2002. The conditional cross-petition was filed on March 13, 2002. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

Cross-petitioners Fuji Photo Film Company, et al. (Fuji Photo) filed a complaint with the United States International Trade Commission (ITC) alleging that cross-respondents Jazz Photo Corporation, et al. (Jazz Photo) had infringed Fuji Photo's patents by purchasing used disposable cameras, refurbishing those cameras, and importing them for sale to consumers. The ITC ruled that Jazz Photo's actions infringed Fuji Photo's patents and issued a general exclusion order preventing importation of the refurbished cameras. The court of appeals affirmed in part and reversed in part, remanding the case to the ITC. Pet. App. 1a-25a.

1. The United States patent laws provide that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent." 35 U.S.C. 101. The patent grants "the right to exclude others from making, using, offering for sale, or selling the invention." 35 U.S.C. 154(a)(1). A person is liable for infringement of a patent if that person "without authority makes, uses, offers to sell, or sells any patented invention." 35 U.S.C. 271(a) (Supp. V 1999).

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public versions. The citations herein refer to the redacted public versions of those documents.

In 1994, Congress amended the United States patent laws to provide patentees with an express right to exclude the importation of infringing products, which became effective on January 1, 1996. See 35 U.S.C. 154(d)(4) (Supp. V 1999). Congress enacted the importation right in order to bring the United States into compliance with Article 28 of the GATT Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods. See H.R. Rep. No. 826, 103d Cong., 2d Sess. Pt. 1 (1995). The patent law now provides that "Every patent shall contain * * * a grant * * * of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States." 35 U.S.C. 154(a).

The ITC is authorized under Section 337 of the Tariff Act of 1930, as amended, to issue orders excluding products that infringe United States patents from importation into the United States. 19 U.S.C. 1337 (1994 & Supp. V 1999).

2. Fuji Photo invented and marketed the first commercially successful one-time-use camera. Pet. App. 140a. Disposable or one-time-use cameras, technically referred to as "lens-fitted film packages" or "LFFPs," are relatively simple cameras "whose major elements are an outer plastic casing that holds a shutter, a shutter release button, a lens, a viewfinder, a film advance mechanism, a film counting display, and (for some models) a flash assembly and battery." *Id.* at 4a. At the factory, a roll of film is placed in the casing, the casing is made "light-tight" by ultrasonic welding, and a cardboard cover is placed over the casing. *Ibid.* Disposable cameras are intended by the patentee and the consumer to be used only once. *Ibid.* After the con-

sumer has exposed the film, the consumer takes the camera to a photoprocessor who removes the cover and breaks open the casing. *Ibid.* The photoprocessor then either discards the camera, sells the camera back to Fuji Photo for "recycling," or sells it (through intermediaries or directly) to third-party companies that "refurbish" used disposable cameras. See *id.* at 4a; Cross-Pet. App. 57a-61a.[2]

The refurbishing companies take steps to make the used cameras suitable for resale to consumers. On account of discovery disputes, the record does not describe the precise steps the companies take to refurbish the cameras. See Pet. App. 7a. Nevertheless, the principal "common steps" are "removing the cardboard cover, opening the LFFP body (usually by cutting at least one weld), replacing the winding wheel or modifying the film cartridge to be inserted, resetting the film counter, replacing the battery in flash LFFPs, winding new film out of a canister onto a spool or into a roll, resealing the LFFP body using tape and/or glue, and applying a new cardboard cover." *Ibid.*

Cross-respondent Jazz Photo Corporation of New Jersey purchases refurbished disposable cameras from refurbishing companies in China, imports them into the United States, and sells them under the trade names "Jazz DZ35" and "Jazz DZ50." Pet. App. 142a. Cross-respondent Dynatec International Inc., a Utah corporation, imports reloaded cameras from China and sells them in the United States under the trademarks "Fun Pak" and "Dollar General." *Id.* at 141a-142a.

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[2] We follow the court of appeals' use of "'refurbish' as a convenient neutral term without legal significance, intended to connote neither 'repair' nor 'reconstruction' of the used cameras." Pet. App. 2a n.1.

3. Fuji filed a complaint with the ITC alleging that 27 companies, including Jazz Photo, had infringed its 15 patents (twelve utility and three design) relating to disposable cameras. Jazz Photo conceded that the imported cameras, if new, would infringe Fuji's patents. Pet. App. 8a. Jazz Photo relied, however, on the patent-law defense of permissible repair, which allows the owner of a product to repair the product without infringing on the inventor's patent. *Ibid.* Jazz Photo argued that the imported cameras are not new cameras but permissibly "repaired" cameras. *Ibid.*

The ITC instituted an investigation pursuant to Section 337 of the Tariff Act of 1930, 19 U.S.C. 1337 (1994 & Supp. V 1999). The ITC referred the complaint to an administrative law judge (ALJ) for an evidentiary hearing and for issuance of an initial determination. After considering the "nature of the actions by the alleged infringer" (Pet. App. 65a-99a), the intent of the inventor Fuji (*id.* at 100a-113a), the nature of the original single-use camera (*id.* at 113a), and whether a market has developed to service the original single-use camera (*id.* at 113a-115a), the ALJ concluded that the refurbishing companies "are effectively recreating the patented single use camera of [Fuji] and its licensees, and hence are involved in impermissible reconstruction." *Id.* at 127a. The ITC adopted the ALJ's findings of infringement (*id.* at 32a n.4), issued a general exclusion order prohibiting refurbished disposable cameras from entry into the United States (*id.* at 160a-163a), and issued cease-and-desist orders against Jazz Photo and other importers of disposable cameras (*id.* at 164a-179a).

4. The court of appeals affirmed in part and reversed in part. Pet. App. 1-25. The court noted that, unless the reloading constitutes permissible repair, "infringe-

ment of at least some of the patents in suit is conceded." *Id.* at 8a. The "common thread" of the repair precedent, the court stated, is "consideration of the remaining useful capacity of the article, and the nature and role of the replaced parts in achieving that useful capacity." *Id.* at 16a. In the court's view, "the changes made by the remanufacturers all relate to the replacement of the film, the LFFP otherwise remaining as originally sold." *Id.* at 17a. Thus, the court held that "precedent requires that these cameras be viewed as repaired, not reconstructed." *Id.* at 15a.

The court of appeals restricted its holding in two respects. The holding is limited to cameras manufactured by the common steps identified by the ALJ: "LFFPs remanufactured by procedures more extensive than those we hold to constitute repair, or whose remanufacturing procedures were withheld or insufficiently disclosed to the Commission, remain subject to the Commission's orders." Pet. App. 25a. In addition, the holding applies only to cameras first sold in the United States. *Ibid.* The court explained that "[u]nderlying the repair/reconstruction dichotomy is the principle of exhaustion of the patent right," and, according to the court, "United States patent rights are not exhausted by products of foreign provenance." *Id.* at 14a.

Jazz Photo filed a petition for a writ of certiorari (No. 01-1158), seeking review of the portion of the court of appeals' decision that limits its holding to cameras first sold in the United States. As explained in the Memorandum for the Federal Respondent filed in No. 01-1158, the ITC did not rule on the question of exhaustion because the parties had not raised or briefed the issue. Accordingly, the ITC has not taken a position before this Court on whether its review of that question is warranted. See *ibid.*

Fuji filed an opposition to Jazz Photo's petition and additionally filed a conditional cross-petition. The conditional cross-petition presents the question whether the refurbishing companies are engaged in permissible repair.[3]

ARGUMENT

If the Court grants the petition in No. 01-1158, the Court should also grant the conditional cross-petition. Cross-petitioner Fuji is correct that the infringing activities of the refurbishing companies are not excused by the doctrine of permissible repair. See *Cotton-Tie Co.* v. *Simmons*, 106 U.S. 89, 90-91 (1882). The court of appeals' error lies principally in its misapplication of settled law to the facts of this case. Nevertheless, should the Court grant the petition in No. 01-1158, the Court should also grant the conditional cross-petition rather than let stand the central yet incorrect holding of the decision below.

1. This Court has recognized a distinction between "permissible 'repair'" of a patented item and an "infringing 'reconstruction'" of the invention. See *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 342 (1961). The Court's first "authoritative expression on the subject" was *Wilson* v. *Simpson*, 50 U.S. (9 How.) 109 (1850). See *Aro Mfg. Co.*, 365 U.S. at 343 n.9.

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[3] Although a party in the proceedings below, the ITC has no direct stake in the outcome of these petitions. To date, no importer has shown that its refurbishing procedures are limited to the common steps held to be permissible repair by the decision below. Regardless of whether these petitions are granted or denied, therefore, the ITC's exclusion and cease-and-desist orders will remain in force. Nevertheless, to assist the Court, the ITC submits this response, which also reflects the views of the United States and the United States Patent and Trademark Office.

In *Wilson*, the Court recognized the right of the owners of a patented planing machine to replace the cutting blades without permission of the patentee. The Court concluded that, without the ability to replace those knives, the "purchase would have been useless" except for the short time that the original knives remained sharp. 50 U.S. at 125. It additionally observed that no "harm is done to the patentee" when the repair is "confined to the machine which the purchaser has bought." *Id.* at 123.

The Court's later decision in *Cotton-Tie* drew a distinction between repair and reconstruction of the patented invention. In that case, the plaintiffs owned a patent for an "improvement in metallic ties for cotton-bales." 106 U.S. at 89. The patented tie consisted of a hoop of iron and an arrow-shaped buckle that confined the two ends. *Ibid.* Consumers purchased the tie to "confine the cotton in the bale." *Id.* at 91. The tie was placed around the cotton at the cotton-press and then cut at the mill. *Ibid.* Once the tie was cut, the hoop became "too short for the length required for baling." *Ibid.* The defendants purchased as "scrap-iron" the buckles and severed iron hoops; the hoops were "bent" and in "pieces of unequal lengths, some cut at one distance from the buckle, and some at another." *Ibid.* The defendants straightened the old pieces of iron, riveted the pieces together, cut the iron the proper length, and attached an old buckle. *Ibid.* The defendants then sold the refurbished cotton-ties in the same market as the patentee. See *ibid.*

The Court held that the defendants' actions infringed the cotton-tie patents. It first observed that the refurbished cotton-ties were within the claims of the cotton-tie patents. *Cotton-Tie*, 106 U.S. at 93-94. The Court then rejected the defendants' attempt to excuse the

infringement under the doctrine of permissible repair. The Court distinguished *Wilson*, stating that the "principle" of that case is "that temporary parts wearing out in a machine might be replaced to preserve the machine, in accordance with the intention of the vendor, without amounting to a reconstruction of the machine." *Id.* at 94. In the case of the cotton-tie, however, the Court emphasized that the "band was voluntarily severed by the consumer at the cotton-mill because the tie had performed its function of confining the bale of cotton in its transit from the plantation or the press to the mill." *Ibid.* That is, "[i]ts capacity for use as a tie was voluntarily destroyed," and "it could not be used again as a tie." *Ibid.* The Court concluded: "What the defendants did in piecing together the pieces of the old band was not a repair of the band or the tie, in any proper sense." *Ibid.*

Thus, the Court's decision in *Cotton-Tie* held that the principle of permissible repair, recognized in *Wilson*, does not apply if the patented invention has completed its function and been voluntarily destroyed. That decision is controlling in this case, where the material facts are essentially the same. Both inventor and consumer intend for the disposable camera to expose a single roll of film, just as both inventor and consumer intend for the cotton-tie to confine a single bale of cotton. At the photoprocessor, the disposable camera is opened and voluntarily destroyed, just as the tie is cut at the mill and voluntarily destroyed. Both camera and tie have completed their function; the camera can no longer take pictures (because the seal is broken), and the tie can no longer bale cotton (because the tie is cut). The refurbishing companies purchase as scrap the remaining parts of the destroyed camera, just as the cotton-tie defendants purchase as scrap the iron and

buckle. The refurbishing companies then (1) seal the broken casing, much like the cotton-tie defendants straighten the old pieces of hoop; (2) combine parts from several destroyed cameras, much like the cotton-tie defendants rivet together several hoops; and (3) use some of the destroyed camera parts without change, much like the cotton-tie defendants reuse the buckles without change. In both cases, the defendants prepare the refurbished invention for sale in direct competition with the patent holders.

In short, *Cotton-Tie* speaks directly to the issue here and prohibits the activities of Jazz Photo and other refurbishers of disposable cameras. As in *Cotton-Tie*, there is no doubt that defendants' activities infringe the patents unless excused by the doctrine of permissible repair. Pet. App. 8a-9a. That doctrine does not apply where, as here, the patented invention was "voluntarily destroyed" because it "had performed its function." 106 U.S. at 94. As in *Cotton-Tie*, what Jazz Photo and other refurbishers do "in piecing together the pieces of the old" invention is "not a repair of" the invention "in any proper sense." *Ibid.*

Indeed, to permit refurbishment of spent one-time use products would be an unwarranted intrusion on the patentee's exclusive right to sell the invention. When a one-time-use product is refurbished, the market for the refurbished product is necessarily, as in *Cotton-Tie* and this case, the very same market as the market for the invention itself. In those circumstances, the law cannot assume that no "harm is done to the patentee." *Wilson*, 50 U.S. at 123. See generally *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 220 (1980) (the "repair-reconstruction distinction and its legal consequences are determinative" in the "replacement market out of which the *Aro* litigation arose" but that distinction is

"not controlling" in the "primary-use market" for the patented invention); cf. *Surfco Haw.* v. *Fin Control Sys. Pty, Ltd.*, 264 F.3d 1062 (Fed. Cir. 2001), petition for cert. pending No. 01-863 (filed Dec. 3, 2001) (surf craft patentee may not restrict sale of replacement fins).[4]

The Court's decisions since *Cotton-Tie* confirm the vitality of that decision. In *Aro Manufacturing Co.*, the Court rejected the claim that the defendants had infringed a patent for a convertible car top by providing fabric to replace that unpatented element of the invention. The Court concluded that replacing the worn-out fabric was permissible repair because it was replacement of a "spent, unpatented element." 365 U.S. at 346. The Court contrasted replacing the worn fabric with "a second creation of the patented entity, as, for example, in *Cotton Tie* v. *Simmons*." *Ibid.*; see also *id.* at 343 n.9. And in *Wilbur-Ellis Co.* v. *Kuther*, 377 U.S. 422 (1964), this Court cited *Cotton Tie* as the paradigm case of impermissible "reconstruction." *Id.* at 424 n.1 (repair of rusted canning machine). Because *Aro* and *Wilbur-Ellis* reaffirm the vitality of the *Cotton-Tie* holding, they do not support finding permissible repair where, as here, the invention has completed its function and been voluntarily destroyed.

The court of appeals erred in relying on distinguishable cases involving inventions that were refurbished from disassembled parts that had simply stopped working, but had not been voluntarily destroyed and remained repairable for use in their original intended function. In *Dana Corp.* v. *American Precision Co.*,

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[4] The United States, at the invitation of the Court, is also filing a brief amicus curie in No. 01-863, which will be supplied to the parties in this case.

827 F.2d 755, 758 (Fed. Cir. 1987), the defendants refurbished discarded truck clutches, while in *General Elec. Co.* v. *United States*, 572 F.2d 745 (Ct. Cl. 1978), the defendants refurbished naval gun mounts. In each case, the defendants engaged in extensive efforts to refurbish the patented inventions out of parts derived from non-working used products embodying the invention. But in neither case were those durable goods spent through a single use or "voluntarily destroyed" because their function was complete. The clutches and gun mounts were still very much wanted for their original purposes. Indeed, that was the entire point of the repair. Here, by contrast, the camera's intended function – exposure of a single roll of film – is complete upon a single use. In those circumstances, the extensiveness (or not) of the repair efforts is beside the point.

Nor is the holding of *Cotton-Tie* founded solely on the patentee's intent. The court below correctly noted that "the patentee's unilateral intent, without more, does not bar reuse of the patented article, or convert repair into reconstruction." Pet. App. 16a-17a, citing *Hewlett-Packard Co.* v. *Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445 (Fed. Cir. 1997) (modifying unused printer cartridges akin to repair), cert. denied, 523 U.S. 1022 (1988). See *Surfco Haw.* v. *Fin Control Sys. Pty, Ltd.*, *supra* (holding that a purchaser of a patented product may replace working parts despite the contrary intent of the patentee). And, indeed, although the Court observed that the cotton-ties were stamped with the legend "'Licensed to use once only" (106 U.S. at 91), *Cotton-Tie* did not rely solely on the intent of the patentee. Compare *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 344 (1908) (the *Cotton-Tie* case "was not decided as one of restricted license") with *Aro Manufacturing Co.*, 365 U.S. at 343 n.9 ("the fact that the ties were marked

'Licensed to use once only,' was deemed of importance by the Court"). Where, as here, the intent of the patentee accords with that of the purchaser, and the intention of single use is confirmed by voluntary destruction of the invention, refurbishing the invention from the scrap materials constitutes an unauthorized making of the invention. *Cotton-Tie*, 106 U.S. at 93. See also *Morgan Envelope Co.* v. *Albany Perforated Wrapping Paper Co.*, 152 U.S. 425, 434 (1894) ("The gist of the [*Cotton-Tie*] decision is that the use of a tie once, and its subsequent severance, were intended to operate as a destruction of it, and that the defendants had no right to put the same parts together for a second time.").

2. If the Court grants the petition in No. 01-1158, the Court should also grant the conditional cross-petition. The question presented by the petition in No. 01-1158 is whether the doctrine of patent exhaustion, which "under[lies]" (Pet. App. 14a) the defense of permissible repair, is available to the purchaser of a patented invention when the first purchase occurs abroad. As explained above, this Court's decision in *Cotton-Tie* should preclude any camera-refurbishing company from prevailing on the defense of repair. Accordingly, there may be no need to consider whether or not the repair defense is available when the first sale is made overseas. Because the court of appeals' ruling on permissible repair in this case departs from *Cotton-Tie*, this Court should review that central holding before reaching the secondary question whether the repair defense is available when the first sale is made overseas. Accordingly, if the Court grants the petition

in No. 01-1158, it should also grant the conditional cross-petition.[5]

CONCLUSION

If the Court grants the petition in No. 01-1158, the Court should also grant the conditional cross-petition limited to the first question.

Respectfully submitted.

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MAY 2002

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[5] There is no need for the Court to review the second question presented in the cross-petition. The court of appeals correctly ruled that the defense of repair can excuse infringement of process patents. Pet. App. 21a. If the purchaser of a patented invention is permitted to repair the invention, it would make no sense to prohibit the processes necessary to make those repairs. Thus, if we assume that one could repair a disposable camera by reloading the film, one should be permitted (for that purpose only) to use the patented method—*i.e.*, inserting film in a darkroom—or the right of repair would be meaningless because the repair could not be practiced.